HIGHLAND QUEEN SPORTSWEAR LIMITED

100% PURE VIRGIN WOOL
Highland Queen®
SPORTSWEAR
MADE IN CANADA

Annual Meeting of Shareholders

May 25, 1977

HIGHLAND QUEEN SPORTSWEAR LIMITED

PRESIDENT'S REPORT

In spite of a slight drop in sales and royalty revenue, the earnings of the Company increased from \$94,500 to \$113,600 accounting for an increase in net earnings per share from 28.6¢ to 34.4¢. An increase in the working capital of the Company of \$130,000 was primarily attributable to the net income earned in 1976.

By virtue of the acceptability of our present product line and to centralize manufacturing facilities, it was decided that a more modern, larger plant be leased for the purpose of producing an anticipated larger number of units. This move in December of 1976 has enabled us to participate in a greater range of the products created by our United States tie-ups and has given us additional scope to enhance the output of our own Highland Queen line.

Additional senior staff has been engaged for the purpose of supervision of manufacturing and distribution.

So long as the economy as it applies to the soft goods market does not worsen, we are looking forward to an increased volume and a resulting increase in profits.

As always we are grateful to our employees who have helped in the progress of the Company and to the shareholders who have shown confidence in the Company.

On Behalf of the Board of Directors

DAVID WEISER

April 21st, 1977.

HIGHLAND QUEEN SPORTSWEAR LIMITED

INFORMATION CIRCULAR

as at April 21, 1977

MANAGEMENT SOLICITATION

This Information Circular is furnished in connection with the solicitation by the Management of HIGHLAND QUEEN SPORTSWEAR LIMITED of proxies to be voted at the Annual Meeting of Shareholders of the Corporation, to be held at the time and place and for the purposes set forth in the Notice of Meeting. The solicitation will be by mail and the cost will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed Form of Proxy are Directors of the Corporation. **A Shareholder desiring to appoint some other person to represent him at the Meeting may do so by inserting in the blank space provided in the said form the name of the person whom he wishes to appoint as his proxy and delivering or mailing the completed proxy to Guaranty Trust Company of Canada at 88 University Avenue, Toronto M5J 1T8.**

A Shareholder executing the enclosed proxy has the power to revoke it at any time prior to its use by instrument in writing, executed by the Shareholder or his attorney duly authorized in writing, or, if the Shareholder is a Corporation, under its corporate seal or by an officer or attorney thereof, duly authorized and deposited either at the head office of the Corporation at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof at which the proxy is to be used, or with the Chairman of such meeting on the day of the Meeting or adjournment thereof.

EXERCISE OF DISCRETION BY PROXIES

It is intended that the accompanying Instrument of Proxy, if signed, dated and returned to the Corporation prior to the Meeting, will be voted for the election of Directors and the appointment of Auditors in accordance with the instructions contained in the enclosed Instrument of Proxy, and will be voted with respect to amendments or variations identified in the Notice of Meeting or other matters that may properly come before the Meeting according to the best judgment of the person voting the proxy at the Meeting.

The Management knows of no matters to come before the Annual Meeting of Shareholders other than the matters referred to in the Notice of Meeting. If any matters which are not known should properly come before the Meeting, the accompanying Proxy Instrument will be voted in such matters, in accordance with the best judgment of the person voting it.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The Corporation has an authorized capital consisting of 100 common shares without par value, 500,000 Class "A" shares without par value and 500,000 Class "B" shares without par value, of which 322,270 Class "A" shares and 7,730 Class "B" shares are issued and outstanding as fully paid and non-assessable. Each share carries the right to one vote. Each registered shareholder of record at the time of the taking of the vote at the Annual Meeting will be entitled to vote at the meeting. To the knowledge of the Management, the only person or corporation beneficially owning more than 10 per cent of the issued and outstanding shares of the Corporation, are the following:

David Weiser	101,250	30.681% of the issued and outstanding shares
Dune Investments Limited	86,250	26.136% of the issued and outstanding shares

The shareholders of Dune Investments Limited are the wife and four children of David Weiser.

ELECTION OF DIRECTORS

The Board of Directors consists of five directors to be elected annually. The persons named in the enclosed Instrument of Proxy intend to vote, subject to any restrictions that may be imposed by the Instrument of Proxy, for the election of the nominees whose names are set forth below. It is not contemplated that any of the nominees will be unable to serve as a Director, but if that should occur for any reason prior to the Meeting, the persons named in the enclosed Form of Proxy reserve the right to vote for another nominee in their discretion. Each Director will hold office until the next Annual Meeting or until his successor is duly elected or appointed, if his office is earlier vacated in accordance with the By-laws of the Corporation.

The following table states the names of all persons proposed to be nominated for election as Directors, their position with the Corporation, their principal occupation or employment during the past five years, the date on which they became Directors of the Corporation, and the approximate number of shares of the Corporation beneficially owned, directly or indirectly, by each of them as of April 21, 1977.

Name of Proposed Nominee	Offices presently held in Corporation	Director since	No. of Shares beneficially owned	Principal occupation
David Weiser	Executive President and Director	February 28, 1957	101,250*	President of the Corporation
Howard Weiser	Vice-President and Director	April 27, 1970	4,750	Vice-President and Executive in charge of Styling and Production of Highland Queen Sportswear Limited, Toronto, Ontario
Joseph Weiser	Secretary-Treasurer and Director	February 17, 1969	4,750	Secretary-Treasurer of the Corporation
Paul Henry, Q.C.	Director	February 1, 1968	Nil	Senior partner of Henry & Brown Barristers and Solicitors, Toronto, Ontario
Leon Arthurs	Director	May 21, 1971	Nil	Patent Attorney, Toronto, Ontario

*See heading "Voting Shares and Principal Holders Thereof".

Mr. Joseph Weiser is the nominee of Dune Investments Limited to the Board of Directors.

REMUNERATION OF MANAGEMENT

The aggregate direct remuneration paid or payable by the Corporation to the Directors and Senior Officers of the Corporation and subsidiaries in respect of the Corporation's fiscal year ended October 31, 1976 was $210,650. During the last completed financial year, David Weiser was indebted to the Corporation for money previously loaned to him, without interest, to enable him to complete the purchase of a condominium dwelling. The largest aggregate amount of the indebtedness was $25,718 of which $16,800 is presently outstanding.

During the last completed financial year, Joseph Weiser was indebted to the Corporation for money loaned to him, without interest, to assist in the purchase of a dwelling house. The largest aggregate amount of the indebtedness was $7,500 which amount is presently outstanding.

APPOINTMENT OF AUDITORS

The persons named in the enclosed Form of Proxy intend to vote for the reappointment of Wm. Eisenberg & Co., Toronto, the present Auditors, as Auditors of the Corporation to hold office until the next Annual Meeting of the Shareholders. The said Auditors were first appointed in 1957.

HIGHLAND QUEEN SPORTSWEAR LIMITED

(Incorporated under the Laws of Ontario)

AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at October 31, 1976

ASSETS

	1976	1975
Current Assets		
Cash	$ 9,068	$ 13,611
Accounts receivable	847,012	732,143
Due from shareholders (note 2)	24,300	26,294
Income and sales taxes recoverable	2,524	7,901
Miscellaneous receivables	4,821	1,186
Inventories (notes 1 and 3)	625,443	407,952
Prepaid expenses and sundry assets	18,243	48,961
	1,531,411	1,238,048
Fixed Assets (notes 1 and 4)	41,970	65,480
Other Assets		
Excess of cost of subsidiary over net book value of assets acquired (note 1)	101,356	101,356
Sundry investments – at cost	6,060	2,960
	107,416	104,316
	$1,680,797	$1,407,844

LIABILITIES

	1976	1975
Current Liabilities		
Bank indebtedness (note 5)	$ 465,352	$ 239,593
Accounts payable and accrued liabilities	336,624	399,741
Income and other taxes	1,793	1,111
	803,769	640,445
Deferred income taxes (note 1)	2,159	6,150

SHAREHOLDERS' EQUITY

	1976	1975
Capital stock (note 6)	100	100
Retained earnings	874,769	761,149
	874,869	761,249
	$1,680,797	$1,407,844

Approved on behalf of the Board

"David Weiser", Director

"J. Weiser", Director

HIGHLAND QUEEN SPORTSWEAR LIMITED
(Incorporated under the Laws of Ontario)
AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings and Retained Earnings
for the year ended October 31, 1976

	1976	1975
EARNINGS		
Revenue		
Sales	$3,429,010	$3,494,867
Royalty revenue	9,733	22,806
Interest income	718	2,118
	3,439,461	3,519,791
Cost of sales	2,506,495	2,583,924
Earnings before the undernoted expenses	932,966	935,867
Selling and administrative expenses	731,866	751,409
Depreciation	28,452	19,896
Interest	38,370	42,448
	798,688	813,753
Earnings before income taxes	134,278	122,114
Income taxes	20,658	27,600
Net earnings	$ 113,620	$ 94,514
Net earnings per share	34.4¢	28.6¢
Number of shares outstanding	330,000	330,000
RETAINED EARNINGS		
Balance at beginning of year	$ 761,149	$ 666,635
Net earnings	113,620	94,514
Balance at end of year	$ 874,769	$ 761,149

HIGHLAND QUEEN SPORTSWEAR LIMITED

(Incorporated under the Laws of Ontario)

AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position for the Year ended October 31, 1976

	1976	1975
SOURCE OF WORKING CAPITAL		
Operations		
Net earnings	$ 113,620	$ 94,514
Add: Charges not requiring use of working capital		
– Depreciation	28,452	19,896
– Deferred income taxes	(3,991)	1,550
	138,081	115,960
Proceeds on disposal of fixed assets	6,972	1,840
Debenture receivable	—	12,500
	145,053	130,300
USE OF WORKING CAPITAL		
Purchase of fixed assets	11,914	18,019
Increase in other assets	3,100	—
	15,014	18,019
INCREASE IN WORKING CAPITAL	130,039	112,281
WORKING CAPITAL AT BEGINNING OF YEAR	597,603	485,322
WORKING CAPITAL AT END OF YEAR	$ 727,642	$ 597,603

AUDITORS' REPORT

To the shareholders of
HIGHLAND QUEEN SPORTSWEAR LIMITED.

We have examined the consolidated balance sheet of Highland Queen Sportswear Limited and its subsidiary companies as at October 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at October 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
January 5, 1977

WM. EISENBERG & CO.
Chartered Accountants

HIGHLAND QUEEN SPORTSWEAR LIMITED

(Incorporated under the Laws of Ontario)

AND SUBSIDIARY COMPANIES

Notes to the Consolidated Financial Statements
October 31, 1976

1. Accounting policies:

Principles of consolidation:

The consolidated financial statements include the accounts of all subsidiary companies.

These are:

Rotex Limited – 100% owned
Jack Winter Sportswear Limited – 100% owned

An exclusive option which expires on October 31, 1978 has been granted to Jack Winter, Inc. to purchase up to a 20% equity interest in Jack Winter Sportswear Limited. The purchase price shall be determined by mutual agreement at the time of exercise of this option.

All inter-company loans and transactions have been eliminated on consolidation.

Inventories:

Inventories are valued at the lower of cost and net realizable value.

Fixed assets:

Fixed assets are valued at cost. Depreciation of equipment and furniture is provided using the diminishing balance method at the annual rate of 20%. The cost and accumulated amortization of leasehold improvements under leases which expired during 1976 have been removed from the accounts. The Company, together with its subsidiaries, moved to new premises subsequent to the year-end and initial costs of $5,186 incurred during 1976 will be amortized commencing in 1977. Costs of moving, improvements, equipment and furniture additions for 1977 are estimated at $75,000.

Excess of cost of subsidiary over net book value of assets acquired:

The excess of cost of subsidiary over net book value of assets acquired is carried on the accounts at cost without amortization.

Income taxes:

Income taxes are based on accounting income rather than on taxable income. Differences primarily relating to depreciation are reflected in different time periods for financial accounting purposes than for tax purposes and give rise to deferred income taxes.

Foreign currencies:

Foreign currencies have been translated into Canadian funds as follows:

Current assets and liabilities – at the prevailing rates on October 31, 1976.

Revenue and expenses – at the average rates prevailing during the year.

2. Due from shareholders:

Loans outstanding by the Company during 1976 to shareholders amounted to approximately $33,317.

3. Inventories:

At October 31 the inventories are as follows:

	1976	1975
Raw materials	$298,490	$186,607
Work-in-process	83,773	41,178
Finished goods	243,180	180,167
	$625,443	$407,952

4. Fixed assets

At October 31 the major categories of fixed assets are as follows:

	Cost	Accumulated Depreciation	Net Book Value
Equipment and furniture	$149,151	$112,367	$ 36,784
Leasehold improvements	5,186	—	5,186
Total, October 31, 1976	$154,337	$112,367	$ 41,970
Total, October 31, 1975	$210,488	$145,000	$ 65,480

5. Bank indebtedness:

At October 31 the bank indebtedness consisted of the following:

	1976	1975
Overdraft	$ 31,352	$ 23,593
General operating loans	434,000	216,000
	$465,352	$239,593

Book debts and inventories of the company and its subsidiaries have been pledged as security for the general operating loans.

6. Capital stock:

(a) The authorized and issued capital stock of the company is summarized as follows:

	Number Authorized	Issued Number	Issued Amount
Class "A" voting, fully participating shares, without par value	500,000	322,270	$ 98
Class "B" voting, fully participating shares, without par value	500,000	7,730	2
Common shares, without par value	100	—	—
		330,000	$100

Class "A" shares may be converted into Class "B" shares and Class "B" shares may be converted into Class "A" shares at any time at the option of the respective holders thereof on a share for share basis.

(b) 400 Class "B" shares were converted into 100 Class "A" shares during the year.

(c) Holders of Class "A" shares are entitled to receive, when declared, dividends paid out of tax-paid undistributed income on hand at the end of 1971. Holders of Class "B" shares are entitled to receive 100/85 of the amount of dividends paid to holders of Class "A" shares out of tax-paid undistributed income on hand at the end of 1971 on a share for share basis.

7. Commitments:

(a) Lease

The Company is committed under a lease entered into on June 23, 1976 for its new premises for a term of seven years commencing December 1, 1976 and expiring November 30, 1983 at an annual rental of $60,000 (exclusive of other occupancy costs). The lease contains an option to renew for a further term of three years.

(b) Licencing agreement

The Company has entered into a licencing agreement, effective November 1, 1976, under which the payment of a minimum licencing fee of $50,000 is required for each of the next five years. The agreement contains an option to renew for a further term of five years.

8. Executive remuneration:

The aggregate direct remuneration paid by the Company and its subsidiaries during the year to the five highest paid employees (which include the directors as officers or employees) totalled $210,650 (1975 – $176,313).

9. Contingent liabilities:

(a) The Company has guaranteed, unconditionally, the performance of all obligations under a licencing agreement entered into by a subsidiary which includes the payment of a minimum licencing fee of $50,000 for each of the next two years.

(b) An action has been entered against a subsidiary for $22,600 with regard to an alleged minimum guaranteed royalty payment. Legal counsel is of the opinion that the subsidiary has a valid defence and accordingly, no provision has been made in the financial statements.

10. Comparative figures:

Certain 1975 amounts have been reclassified to conform with the presentation adopted for 1976.